



U.S. Agency for
INTERNATIONAL
DEVELOPMENT

RIG/San Salvador

July 15, 2002

MEMORANDUM

FOR: USAID/Dominican Republic Director, Elena Brineman

FROM: Acting RIG/San Salvador, Steven H. Bernstein “/s/”

SUBJECT: Risk Assessment of Major Functions Within USAID/Dominican Republic (Report No. 1-517-02-002-S)

This memorandum is our report on the subject risk assessment. This is not an audit report, and does not contain any recommendations for your action. Your comments on our draft report have been included in their entirety in Appendix II.

I appreciate the cooperation and courtesy extended to my staff during the risk assessment. My staff benefited by the time they spent speaking with your program and administrative managers.

Background

USAID/Dominican Republic is in the final year of its fiscal year 1997 strategic plan. A new six-year plan has been developed with activities to help ensure that poor Dominicans share in the benefits of economic growth, to help the Dominican society advance its democracy, and to help improve health conditions.

USAID/Dominican Republic’s program areas and their planned fiscal year 2002 and 2003 funding levels, in millions, are presented in the following table:

	FY 2002	FY 2003
Policy – Economic, Energy, Education, and Environment	\$ 3.0	\$ 4.4
Population and Health – HIV/AIDS, reproductive Health, Child Survival, Health Network, Field Support	9.5	11.4
Justice, Democracy and Governance – Rule of Law, Civil Society	<u>5.5</u>	<u>7.1</u>
	<u>\$18.0</u>	<u>\$22.9</u>

The General Accounting Office (GAO) noted in “Standards for Internal Control in the Federal Government” (November 1999) that internal controls should provide reasonable assurance that agency objectives are being achieved, operations are effective and efficient, and assets are safeguarded against loss. Internal controls consist of the following five interrelated components. These components are the minimum level for internal control and provide the basis against which internal control is to be evaluated.

1. Management and employees should establish and maintain a control environment throughout the agency that sets a positive and supportive attitude toward internal control and conscientious management.
2. Internal control should provide for an assessment of the risks the agency faces from both external and internal sources.
3. Internal control activities should be effective and efficient in accomplishing the agency’s control objectives and help ensure that management’s directives are carried out.
4. Information should be recorded and communicated to management and others within the agency who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.
5. Internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.

This review focused on the second component—risk assessment. The GAO standards note that the specific risk analysis methodology used can vary because of differences in agencies’ missions and the difficulty in qualitatively and quantitatively assigning risk levels.

Discussion

USAID/Dominican Republic manages activities in the following major areas. Our assessments of the risk exposure for each of these functions are described below.

Function Description	Risk Exposure
Policy – develops economic, energy, education, and environment policies	Low
Risk Assessment Factors	
<ul style="list-style-type: none">• Strategic objective teams comprised of members from multiple disciplines representing all mission functions.• Management has instituted monitoring and progress reporting activities.• Mission management demonstrates a commitment to management control.• Implementers are subject to periodic audits.• A new strategy is beginning to be implemented.• With a \$3 million fiscal year 2002 planned funding level, the function is relatively small for the mission.• It is difficult to establish a direct causal link between USAID efforts and intended results.• The mission’s Federal Managers’ Financial Integrity Act (FMFIA) review did not disclose material weaknesses in this area.	

Function Description	Risk Exposure
Population and Health – oversees HIV/AIDS, reproductive health, child survival, health network, and field support activities	Moderate
Risk Assessment Factors	
<ul style="list-style-type: none"> • Strategic objective teams comprised of members from multiple disciplines representing all mission functions. • Management has instituted monitoring and progress reporting activities. • Team member duties have been defined. • Mission management demonstrates a commitment to management control. • Implementers are subject to periodic audits. • The mission is aware of allegations against a USAID recipient. The recipient has allegedly tried to obtain reimbursements for the same expenses from multiple donors. • With a \$9.5 million fiscal year 2002 planned funding level, the function is the mission's largest. • HIV/AIDS activities are high profile, sensitive activities. • The mission's FMFIA review did not disclose material weaknesses in this area. 	

Function Description	Risk Exposure
Justice, Democracy and Governance – promotes rule of law and civil society issues	Moderate
Risk Assessment Factors	
<ul style="list-style-type: none"> • Strategic objective teams comprised of members from multiple disciplines representing all mission functions. • Management has instituted monitoring and progress reporting activities. • Mission management demonstrates a commitment to management control. • A new strategy is beginning to be implemented. • Implementers are subject to periodic audits. • With a \$5.5 million fiscal year 2002 planned funding level, the function is the significant relative to total mission funding. • The political will on the part of the government of the Dominican Republic to undertake reform is uncertain. • The mission's FMFIA review did not disclose material weaknesses in this area. 	

Function Description	Risk Exposure
Program Office —coordinates budget and annual reporting	Low
Risk Assessment Factors	
<ul style="list-style-type: none"> • Activities are lead by experienced USAID staff. • Strategic objective teams comprised of members from multiple disciplines representing all mission functions. • Mission management demonstrates a commitment to management control. 	

Function Description	Risk Exposure
Controller's Office —responsible for accounting, voucher payment, and financial analysis	Moderate
Risk Assessment Factors	
<ul style="list-style-type: none"> • Activities are lead by experienced USAID staff. • Strategic objective teams comprised of members from multiple disciplines representing all mission functions. • Mission management demonstrates a commitment to management control. • Operations follow specific, well-defined procedures. • Duties are segregated. • The Mission Accounting and Control System (MACS) has inherent security limitations. • We judged the function to have a high level of inherent risk due to the high number of regulations that control operations and the high volume and high value of payments disbursed. • Two financial audits were done by the Regional Inspector General (RIG) during fiscal year 2001. <ul style="list-style-type: none"> • In an audit of certain financial operations, the RIG concluded that advances, disbursements, and balances as of March 31, 2000 were properly processed and reported. • In an audit of the mission's recipient contracted audit universe the RIG concluded that a complete and accurate audit universe was developed but that audits were not submitted in a timely manner. • The mission's FMFIA review did not disclose material weaknesses in this area. 	

Function Description	Risk Exposure
Contracting Office —provides contract negotiation, change order management, contract drafting, and contract management services	Moderate
Risk Assessment Factors	
<ul style="list-style-type: none">• Regional Contracting Officer has over 15 years experience with USAID.• Members of the Contracting Office are also members of the strategic objective teams.• Contracting procedures regulated and defined.• Contract preparation and management software is reported to be inefficient and inaccurate.• The mission’s FMFIA review did not disclose material weaknesses.	

Function Description	Risk Exposure
Executive Office —provides general services to the mission including information systems, personnel, procurement, maintenance, motor pool, and property management	Moderate
Risk Assessment Factors	
<ul style="list-style-type: none"> • Staffing of Executive Officer position is uncertain. • Strategic objective teams comprised of members from multiple disciplines representing all mission functions. • Mission management demonstrates a commitment to management control. • Operations follow specific, well-defined procedures. • We judged the function to have a high level of inherent risk due to the high number of regulations that control operations and the high volume of low dollar value purchases requested. • The Information Systems Security Officer is a U.S. direct hire but does not have extensive information systems security experience. • The mission's FMFIA review did not disclose material weaknesses. 	

Conclusion

This review assigned a risk exposure judgement of high, moderate, or low for each major function. A higher risk exposure judgement implies that the program objectives for a particular function are more vulnerable to not being achieved or to experiencing irregularities. Appendix I describes in detail our risk assessment's scope and methodology.

In judging the risk exposure for the administrative and program functions in USAID/Dominican Republic, we considered:

- the amount of funding the individual programs received relative to the overall mission budget (see Background section for details of the mission's \$18 million fiscal year 2002 program budget),
- the level of U.S. political interest in the program activities,

- the level of involvement and/or support provided by the Government of the Dominican Republic,
- the experience of key staff members in their area of expertise as well as in the Dominican Republic,
- incidences of improper administration or material weaknesses (if any) noted in prior reviews and/or as reported by mission officials,
- management support for internal controls, and
- the level of risk inherently present in an activity that program or administrative objectives will not be met.

Our risk assessment of USAID/Dominican Republic covered seven functions. We judged five functions to have a “moderate” risk exposure and two to have a “low” risk exposure as illustrated in the following table.

Function Description	Risk Exposure		
	High	Moderate	Low
Policy – develops economic, energy, education, and environment policies			✓
Population and Health – oversees HIV/AIDS, reproductive health, child survival, health network, and field support activities		✓	
Justice, Democracy and Governance – promotes rule of law and civil society issues		✓	
Program Office —coordinates budget and annual reporting			✓
Controller’s Office —responsible for accounting, voucher payment, and financial analysis		✓	
Contracting Office —provides contract negotiation, change order management, contract drafting, and contract management services		✓	
Executive Office —provides general services to the mission including information systems, personnel, procurement, maintenance, motor pool, and property management		✓	

We judged the Population and Health program and the Justice, Democracy and Governance program to have moderate risk exposures due to the relative size of the programs within the mission portfolio and due to the current level of political interest in HIV/AIDS activities.

We judged the Executive Office, the Contracting Office, and the Controller's Office to have moderate risk exposures because of inherent risks that accompany the functions of these offices.

Related to all mission functions, we judged that the control environment and the structure of the Strategic Objective teams were beneficial in lowering the risk exposure. Commitment to the control environment was demonstrated in the importance given to issues identified by the Mission Control and Review Committee. Including employees from the Executive Office, the Contracting Office, the Controller's Office, and the Program Office as members of the Strategic Objective teams improves communication.

**Scope and
Methodology****Scope**

The Regional Inspector General/San Salvador conducted a risk assessment of major functions within USAID/Dominican Republic. The risk assessment considered operations principally for fiscal year 2002. The risk assessment was conducted at USAID/Dominican Republic from April 22, 2002 to April 26, 2002.

Methodology

We interviewed officials as well as reviewed related documentation of major functions performed by USAID/Dominican Republic. These documents covered background, organization, management, budget, staffing responsibilities, and prior reviews. Our review of USAID/Dominican Republic documentation was isolated and judgmental in nature and was conducted principally to confirm oral attestations of management.

We identified USAID/Dominican Republic's major functions based on input from the Mission Director, discussions with mission staff, and review of mission reports. We judged risk exposure (e.g., the likelihood of significant abuse, illegal acts, and/or misuse of resources, failure to achieve program objectives, and noncompliance with laws, regulations and management policies) for those major functions. We assessed overall risk exposure as high, moderate, or low. A higher risk exposure simply indicates that the particular function is more vulnerable to not achieving its program objectives or to experiencing irregularities. We considered the following key steps in assessing risk exposure:

1. determined significance and sensitivity;
2. evaluated susceptibility (inherent risk) of failure to attain program goals, noncompliance with laws and regulations, inaccurate reporting, or illegal or inappropriate use of assets or resources;
3. were alert to "red flags" such as a history of improper administration or material weaknesses identified in prior audits/internal control assessments, poorly defined and documented internal control procedures, or high rate of personnel turnover;
4. considered management support and the control environment;
5. considered competence and adequacy of number of personnel;
6. identified and understood relevant internal controls; and
7. determined what was already known about internal control effectiveness.

These risk exposure assessments were not sufficient to make definitive determinations of the effectiveness of internal controls for major functions. As part of the scope of our review, we (a) identified, understood, and documented (only as necessary) relevant internal controls and (b) determined what was already known about the effectiveness of internal controls. However, we did not (a) assess the adequacy of internal control design, (b) determine if controls were properly implemented, nor (c) determine if transactions were properly documented.

Our risk assessment of USAID/Dominican Republic's major functions has the following limitations in their application.

- First, we assessed risk exposure at the major function level only.
- Second, we only assessed risk exposure. Our assessments were not sufficient to make definitive determinations of the effectiveness of internal controls for major functions. Consequently, we did not (a) assess the adequacy of internal control design, (b) determine if controls were properly implemented, nor (c) determine if transactions were properly documented.
- Third, higher risk exposure assessments are not definitive indicators that program objectives were not being achieved or that irregularities were occurring. A higher risk exposure simply implies that the particular function is more vulnerable to such events.
- Fourth, risk exposure assessments, in isolation, are not an indicator of management capability due to the fact that the assessments consider both internal and external factors, some being outside the span of control of management.
- Fifth, comparison of risk exposure assessments between organizational units is of limited usefulness due to the fact that the assessments consider both internal and external factors, some being outside the span of control of management.

**Management
Comments**

Date: June 5, 2002
To: Tim Cox, RIG/SS
From: Elena Brineman, Director, USAID/Dominican Republic
Subject: Risk Assessment of USAID/Dominican Republic's
Administrative and Program Operations

USAID/Dominican Republic would like to thank RIG/SS for the subject Risk Assessment. We concur with the findings. Of particular note is the memorandum's mention that "Mission management demonstrates a commitment to management control." I personally take great interest in having excellent internal controls. The senior management team of this mission also takes interest in minimizing the inherent operating risks that we face in the Dominican Republic. I appreciate your staff's formal recognition of this in the report.

On page 8, the last paragraph should be corrected to state: We judged five functions to a "moderate" risk exposure and two to have a "low" risk exposure as illustrated in the following table.